

Department of Legislative Services  
 Maryland General Assembly  
 2019 Session

FISCAL AND POLICY NOTE  
 First Reader

Senate Bill 918 (Senator Lam)  
 Budget and Taxation

State Department of Assessments and Taxation - Assessments, Audits, Records,  
 and Appeals (SDAT Reform Act of 2019)

This bill alters specified property tax assessment procedures at the State Department of Assessments and Taxation (SDAT), including the appeals process, auditing requirements, and specified notification requirements. The bill requires the Department of Legislative Services (DLS) to report to the General Assembly by December 31, 2019, on a comparison of the staffing levels of SDAT and the Property Tax Assessment Appeals Boards (PTAABs) and the staffing levels of comparable agencies and appellate boards of peer states.

Fiscal Summary

**State Effect:** General fund expenditures increase by \$2.2 million in FY 2020. Special fund revenues and expenditures increase by a commensurate amount in FY 2020. Reporting requirements for DLS can be handled with existing budgeted resources. Future years reflect annualization and inflation.

(\$ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SF Revenue	\$2.2	\$2.3	\$2.4	\$2.4	\$2.5
GF Expenditure	\$2.2	\$2.3	\$2.4	\$2.4	\$2.5
SF Expenditure	\$2.2	\$2.3	\$2.4	\$2.4	\$2.5
Net Effect	(\$2.2)	(\$2.3)	(\$2.4)	(\$2.4)	(\$2.5)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** County expenditures increase by \$2.2 million in FY 2020 and by \$2.5 million in FY 2024. Local government property tax revenues may be affected to the extent property tax refunds are issued beginning in FY 2020.

**Small Business Effect:** None.

## Analysis

**Bill Summary/Current Law:** Under current law, property owners have the right to appeal a property tax assessment within 45 days of the assessment notice. The bill extends this time period to 180 days after the assessment notice.

The bill adds to the list of powers and duties of SDAT's director to include directing the department to hold semiannual public education sessions explaining the assessment and appeals processes.

The bill requires SDAT to adopt regulations to establish a procedure by which a person may request a correction to a minor error contained in a record maintained by the department, including specified valuation records reflected in the database maintained by the department.

SDAT must publish the methodology by which the department classifies assessed property, including an explanation of any classification codes utilized, on the department's website.

SDAT must establish procedures by which the activities of each county supervisor and assessors are periodically audited by another county supervisor designated by SDAT's director. The audit must include the review of a statistically significant percentage of the assessments conducted in the county of the supervisor subject to the audit. SDAT must adopt regulations to implement this provision of the bill.

Under current law, for specified written notices sent to taxpayers regarding (1) a change of a property valuation; (2) a change in classification; (3) establishment of an initial real property value; (4) a decision of an assessment appeal of a petition to change an existing real property valuation or classification; and (5) a revaluation or reclassification, if a valuation or classification has been appealed but not finally determined, the notice must include:

- the amount of the current value;
- the amount of the proposed value;
- the amount of the proposed value that is the basis for the assessment in the applicable years of the three-year cycle;
- a statement indicating the right of appeal and briefly describing the appeal process and the property owner's bill of rights; and
- a statement that valuation records are available from the department.

The bill adds the following criteria that must be included in these notices:

- a copy of the valuation records, including (1) a description of the neighborhood within which the real property is located; (2) a list of neighborhood properties determined by the department to be comparable properties; and (3) a list of neighborhood properties considered by the department but determined not to be comparable properties due to a designation as a nonarms-length transfer; and
- a description of resources and tools provided by the department, including (1) the address, hours, and contact information for the department's county assessment office in which the real property is located; (2) the address for the department's website where the department's assessment procedures manual may be accessed; (3) the address for the department's website where the database maintained by the department may be accessed; and (4) the addresses for other relevant resources available on the department's website or on other State departments' websites.

Under current law, SDAT must maintain a database on the department's website that is available to the public and searchable by individual property that relates to the valuation of single-family residential real property in the State and includes for each property:

- the square footage of the enclosed improvements above ground;
- the square footage of the completed improvements below ground;
- the number of bathrooms;
- the number of garages; and
- the date of the initial assessment of the most recently completed improvements assessed after July 1, 2000, under the State's three-year assessment cycle.

The bill adds the following criteria that must be included in the database:

- the type of exterior construction for the primary structure, including a breakdown by material for structures with more than one type of exterior construction; and
- the date of completion of substantial renovations to the improvements, if applicable.

SDAT must maintain a portal on the department's website that is available to the public that permits a person whose property is the subject of a single-family residential real property valuation record to access and download a copy of the assessment worksheets and cards that relate to the valuation.

The bill repeals a requirement that SDAT provide a copy of assessment worksheets and cards that relate to a real property valuation to the person whose property is the subject of the valuation if the value or classification of the property is to be changed for property tax purposes and the person requests the worksheets and cards.

Under current law, except under specified circumstances, any taxpayer, county, municipality, or the Attorney General may submit a written appeal to the supervisor as to a value or classification in a notice of assessment within 45 days from the date of the notice for property assessed by a supervisor. The bill extends this time period to 180 days.

Under current law, for property assessed by a supervisor, any taxpayer, county, municipality, or the Attorney General may appeal a value or classification in the assessment notice to the PTAAB where the property is located within 30 days from the date of the notice. The bill authorizes a person to appeal a property tax valuation or classification to a PTAAB in another county if evidence is presented that a fair hearing cannot be obtained at the PTAAB in the county where the property is located.

Under current law, for a hearing before a supervisor that relates to the value of property, the person making the appeal must receive the assessment worksheet or card for the property that is the subject of the appeal and the sales analysis for the neighborhood or property type of the property that is the subject of the appeal at least 14 days before the hearing. The bill requires SDAT to also include a copy of the notice of the change in value for the property that is the subject of the appeal, including all of the new information required by the bill.

Under current law, for a hearing before a PTAAB that relates to the value of property, the person making the appeal must receive a list of other comparable properties at least 30 days before the hearing. The list must identify the location and owner of each comparable property. The list must also include, for each comparable property on the list:

- the sale price and date of sale;
- the assessment and the year or years to which the assessment applied; and
- the construction costs and the date of construction.

The bill requires SDAT to also include a copy of the notice of the change in value for the property that is the subject of the appeal, including all of the new information required by the bill.

**Background:** Under current law, real property is valued and assessed once every three years. This approach, the triennial assessment process, was part of major property tax reform established in 1979. Under this process, assessors from SDAT value each property every three years. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; (4) a prior erroneous assessment; (5) a residential use assessment is terminated; or (6) a subdivision occurs. The assessor determines the current “full market value” of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

Because only one-third of the properties in each county are reassessed in a given year, local governments can rely on prior years' growth in the other two-thirds of the base to reduce the full impact of any one-year decline in assessable base. Conversely, when market values are rising, assessed values lag behind the current market, resulting in a slower annual growth in the assessable base than the market may indicate.

The assessment appeal process typically begins with an appeal of the notice of assessment. These notices are mailed in late December, and an appeal may be filed with the supervisor of assessments within 45 days of the date of the notice; for properties that transfer after January 1 but before the beginning of the taxable year, the new owner has 60 days from the date of transfer to file an appeal regarding the property value or classification. Following that appeal, the property owner receives a final notice. If the taxpayer is not satisfied with the outcome, the next appeal must be made to the appropriate PTAAB within 30 days from the date of the final notice. A further appeal may be taken to the Maryland Tax Court within 30 days of receiving notice from the board. Any further appeals are made through the judicial system, including the circuit court, the Court of Special Appeals, and the Court of Appeals.

### *Staffing Adequacy Study*

SDAT reports that since 1975, the number of assessors has decreased from 276 to 161 while the number of real property accounts has almost doubled over that same period of time. A recently released report ([\*Executive Branch Adequacy Study\*](#)) by DLS indicated that there are over 2.2 million taxable parcels statewide and 144 nonsupervisory assessors in the residential property division. In order to fulfill SDAT's mandate, each assessor would have to visit and reevaluate approximately 5,100 properties each year. In a 2015 report, SDAT noted that an experienced assessor working efficiently can evaluate 2,500 properties per year. There has also been a small but steady growth in the number of taxable parcels in the State. Between 2011 and 2016, the number of properties increased by approximately 53,000. While this equates to only 2.4% total growth over five years, it establishes a need to add between one and two assessors per year, to keep pace with growth.

The DLS report noted that despite these limitations, SDAT has generally performed well on the assessment industry's three principal metrics for evaluation: the assessment-to-sales ratio; coefficient of dispersion; and price-related differential. These measures evaluate, respectively, that the assessments are generally accurate to the market value, precise among similar properties, and consistent across the spectrum of property values. SDAT performed well within industry standards for all three measures in 2016.

At no point in the last four decades has SDAT had enough assessors to fulfill its mandate to physically inspect each property in the State every three years, and this demonstrates a longstanding and unresolved staffing need. The Office of Legislative Audits noted this

issue in 2013 and was informed by SDAT directly that this was a longstanding problem. At that time, the agency reported that it had 78 fewer positions for inspectors than it had in 2002, and its policy was to conduct physical inspections only every nine years unless a triggering event, such as a sale or the filing of a building permit, occurred. While the agency was able to hire 22 additional inspectors in 2013 and 2014, that has not been sufficient to resolve the underlying issue. DLS estimated that 200 additional assessor positions were necessary to meet the agency's statutory mandate of exterior physical inspections every three years.

Chapter 651 of 2018 repealed the requirement that SDAT value all real property based on an exterior physical inspection of the real property. Instead, Chapter 651 requires SDAT to value real property based on a review of each property in each three-year cycle. The review by SDAT must include a physical inspection of a property if (1) the value of improvements to the property is being initially established; (2) the value of substantially completed improvements is being established; (3) the property is the subject of a recent sale, and the inspection is deemed necessary by SDAT for purposes of market analysis; (4) the property owner requests a physical inspection as part of an active appeal; (5) the department is notified by a county finance officer that a substantially completed improvement has been made that adds at least \$1.0 million in value to the property; or (6) the department determines that a physical inspection is appropriate. SDAT must perform a physical inspection within 30 days of being notified of a substantial improvement by a county finance officer.

**State Fiscal Effect:** Total general fund and special fund expenditures for SDAT increase by \$4.4 million in fiscal 2020, which accounts for the bill's October 1, 2019 effective date. This estimate reflects the cost of hiring 41 property tax assessors, five property tax audit assessors, and one audit supervisor. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including computer programming changes, as well as a significant increase in mailing costs. The information and assumptions used in calculating the estimate are discussed below.

- The bill increases the time by which a person may appeal an assessment notice from 45 to 180 days. SDAT estimates that the department will need an additional 41 assessors I (grade 13) to implement this provision. The department anticipates more appeals due to the extension of the appeal time period and, as a result, a more compressed timeframe in which to conduct assessments. SDAT has three classifications for counties (A, B, and C) based on the number of real property tax accounts in each county. The department's real property division estimates that, in order to handle additional appeals within the extended time period proposed by the bill and to assess real property in a compressed time period, the "A" counties (Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties) will each need 3 new assessors; the "B" counties (Charles, Frederick,

Harford, Howard, St. Mary's, Washington, and Worcester counties) will each need 2 additional assessors; and the "C" counties (Allegany, Calvert, Caroline, Carroll, Cecil, Dorchester, Garrett, Kent, Queen Anne's, Somerset, Talbot, and Wicomico counties) will each need 1 additional assessor.

- SDAT reports that the department's typical assessment cycle starts when assessment notices are sent out in January. Appeals start in February and tend to go through May and usually conclude in June so that any changes in property values can be included in the July 1 tax bills. Property assessments and reassessments are concluded by October so these property valuations can be included in the department's November base report, which is used by county governments to plan their following year budgets. The November base report is also used by the State for State bond issuances and State education funding formulas. The department reports that the bill would push back its appeal "season" to coincide with when reassessments are completed, which may limit the department's ability to adequately accomplish one of its core missions of conducting property assessments.
- SDAT reports that the department works with local governments to make sure that appeals at the SDAT level are finalized as soon as possible, so that any change in value for properties can be included on each county's July 1 tax bill. Extending the appeal time period by 135 days will likely result in many of the new property valuations not being finalized in time for inclusion in county tax bills that are sent out on July 1 of each year. As a result, the counties will have to send out supplemental bills and possibly issue refunds at a later date.
- The bill requires supervisors to audit other county supervisors and assessors, as well as review a statistically significant percentage of the assessments conducted. With approximately 750,000 annual reassessments, SDAT estimates that it would likely have to conduct a review of approximately 500 assessments to meet the audit requirements of the bill. SDAT reports that current staff do not have the capacity to perform this additional responsibility and the department would have to create a new audit team to perform these functions. As a result, this provision will require the department to hire one supervisor (grade 18) and five assessors (grade 17). The department reports that each county currently reviews its own assessments and an area supervisor reviews the county assessments prior to the State supervisor providing final review. SDAT notes that each county consistently meets various nationally recognized standards of assessment measuring uniformity and sales-to-assessment ratios.
- The bill requires reassessment notices, as well as other notices of a change, to include significantly more information than is currently provided. SDAT estimates

that the notification requirements of the bill will necessitate 15 additional pages per assessment notice. Based on current contracts for sending out assessment notices, SDAT estimates costs will increase by approximately \$1.3 million annually (15 pages per notice for 750,000 reassessment notices, and 50,000 nonreassessment notices at \$0.11 per page).

- The department estimates that it would require additional computer system programming changes at a cost of approximately \$150,000 to include these additional pages. SDAT advises that the department provides most of the information to property owners on a case-by-case basis but does not have a comprehensive manner that would allow this information to be included with all reassessment notices. The department advises that it does not store neighborhood descriptions on its database and that a list of all comparable properties in a neighborhood cannot be gathered from the database. The department does send all sales listings and three comparables when there is an appeal. In addition, a list of nonarms-length properties are currently provided upon request and can be researched on the department's website.
- The bill requires SDAT to include a breakdown of materials for exterior construction. SDAT estimates that this would require a one-time programming cost of \$150,000. The department lists one material or two materials in the case of 50/50 split, but otherwise the search function on the website only provides the primary material. Secondary materials are included on the property worksheets but not on the online search function.
- The bill requires SDAT to create a portal where property owners can access and download a copy of their assessment worksheets. It is estimated that this would require a one-time cost of \$300,000 and then \$293,000 annually to maintain. SDAT advises that there may also be additional scanning costs of \$97,500 annually (\$0.26 per document, one document per every 2 assessments, and 750,000 annual assessments).
- SDAT is required to send all information required by current law, as well as the new information required by the bill to persons making a SDAT level appeal. SDAT advises that there are typically 30,000 such appeals each year. The cost of each new mailing is estimated to be \$2.17, which results in additional costs of \$65,100 annually.
- SDAT is required to send all information required by current law, as well as the new information required by the bill to persons making a PTAAB level appeal. DLS estimates that there were 11,500 PTAAB level appeals in 2018. The cost of each



new mailing is estimated to be \$2.17, which results in additional costs of \$25,000 annually.

Positions	47
Salaries and Fringe Benefits	\$2,173,253
Computer Programming Changes	600,000
Mailing Costs	1,410,055
Operating Expenses	<u>251,861</u>
<b>Total FY 2020 State Expenditures</b>	<b>\$4,435,169</b>

Future year expenditures reflect full salaries with annual increases, employee turnover, and ongoing operating expenses.

#### *Reimbursement from Local Governments*

Under current law, the State and county governments share the cost for SDAT's assessment operations (both real property and personal property) as well as the department's information technology operations. Based on the estimated expenditures required for SDAT to implement the various provisions of the bill, general fund expenditures would increase by \$2.2 million in fiscal 2020. Special fund revenues and expenditures from county government reimbursements increase by a commensurate amount in fiscal 2020.

**Local Fiscal Effect:** As noted, county governments are required to reimburse SDAT for 50% of the department's real and personal property assessment costs. Therefore, county expenditures increase by \$2.2 million in fiscal 2020 and by \$2.5 million in fiscal 2024. **Exhibit 1** shows the estimated reimbursement for fiscal 2020.

As noted, extending the appeal time period by 135 days will likely result in many of the new property valuations not being finalized in time for inclusion in county tax bills that are sent out on July 1 of each year. As a result, county governments will have to send out supplemental bills and possibly issue refunds at a later date.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1088 (Delegate Korman, *et al.*) - Ways and Means.

**Information Source(s):** Carroll, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Maryland Association of Counties; Maryland Municipal League; Maryland Tax

Court; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 4, 2019  
md/hlb

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Analysis by: Michael Sanelli

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

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**Exhibit 1**  
**Estimated County Reimbursement**  
**Fiscal 2020**

<b>County</b>	<b>Amount</b>
Allegany	\$39,307
Anne Arundel	207,892
Baltimore City	226,322
Baltimore	286,399
Calvert	40,960
Caroline	15,889
Carroll	64,046
Cecil	44,967
Charles	62,832
Dorchester	22,052
Frederick	92,250
Garrett	28,158
Harford	95,105
Howard	101,736
Kent	12,813
Montgomery	324,203
Prince George's	280,221
Queen Anne's	24,691
St. Mary's	47,225
Somerset	16,242
Talbot	20,269
Washington	56,254
Wicomico	44,456
Worcester	63,294
<b>Total</b>	<b>\$2,217,585</b>

Source: State Department of Assessments and Taxation

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